

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Financial Statements**

**Van Buren Community  
Mental Health Authority**

**Paw Paw, Michigan**

**September 30, 2007**



Van Buren Community Mental Health Authority  
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September 30, 2007

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## **INDEPENDENT AUDITOR'S REPORT**

Van Buren Community Mental Health Authority  
Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Van Buren Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2008 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Roslund, Prestage & Co, PC".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 24, 2008

## **MANAGEMENT'S DISCUSSION and ANALYSIS**



## **Van Buren Community Mental Health Authority Management's Discussion and Analysis For the Fiscal Year ended September 30, 2007**

The management of Van Buren Community Mental Health Authority (**VBCMHA**) presents the following discussion and analysis of financial activities during the fiscal year ended September 30, 2007. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (**MDCH**), VBCMHA began in FY 2002-2003 receiving a sub-capitation Medicaid funding directly from Summit Pointe (a.k.a. Calhoun County Community Mental Health Authority). Summit Pointe is the regional Prepaid Inpatient Health Plan (**PIHP**) responsible for administering mental health and substance abuse services for a five county affiliation consisting of Barry, Berrien, Branch, Calhoun and Van Buren counties. The affiliation, known as Venture Behavioral Health, operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act (ITFRA).

### **BASIC FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) Statement No. 34, require the presentation of two types of financial statements: Government-wide Statements and Fund Statements.

**Government-wide financial statements** are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursements.

**Fund financial statements** offer a series of statements that focus on the major governmental funds. These statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. The governmental fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. For VBCMHA, the major funds consist of the General Fund and the New Outlook Fund (which are categorized as Governmental Funds). Reconciliations are also offered between the Fund Financial Statements and the Government – Wide Financial Statements.

## **NOTES TO FINANCIAL STATEMENTS**

The Notes to Financial Statements, which immediately follow the financial statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements. Items concerning significant accounting policies, stewardship, compliance and accountability, as well as detailed notes on all assets and liabilities, are provided in this section.

## **KEY FINANCIAL INDICATORS (VBCMHA Governmental Funds)**

	VBCMHA <u>FY 07</u>	VBCMHA <u>FY 06</u>	Dun & Bradstreet Industry Benchmarks FY 06 <u>Median</u>
<u>Financial Stability</u>			
Current Assets to Current Liabilities	2.8	2.7	2.4
Total Liabilities to Net Assets	.63	.7	.6
Fixed Assets to Net Assets	.13	.09	.65
Cash Available for Net Assets, %	1.10	1.26	N/A

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (median) benchmarks as provided by Dun & Bradstreet for the specialty outpatient clinic industry.



**STATEMENT OF NET ASSETS**  
**(STATEMENT OF CHANGES IN FUND BALANCES)**

	Balance <u>10/01/06</u>	Increase <u>(Decrease)</u>	Balance <u>09/30/07</u>
<b>Assets</b>			
Current Assets	3,511,750	(1,763)	3,509,987
Noncurrent Assets	570,459	126,130	696,589
<b>Liabilities</b>			
Current Liabilities	1,310,433	(40,213)	1,270,220
Noncurrent Liabilities	365,301	(12,946)	352,355
<b>Net Assets</b>	<b>2,406,475</b>	<b>177,526</b>	<b>2,584,001</b>

**STATEMENT OF ACTIVITIES**  
**(REVENUES AND EXPENDITURES)**

**Revenues:** FY 07 audited revenues for governmental funds (in accordance with GAAP) are \$14,805,434. Certain changes to this number are then necessary to arrive at our MDCH final report of revenues which total \$15,048,821. The FY 2007 MDCH reportable revenues compared to the FY 2006 MDCH reportable revenues of \$14,729,994 indicates an increase of revenues of \$318,827 (a 2% increase). The overall increase was primarily attributable to an increase in Medicaid funds, as State General funds, and Adult Benefit Waiver funds both decreased from the previous year.

**Expenditures:** FY 07 audited expenditures for governmental funds (in accordance with GAAP) are \$14,794,427. Certain changes to this number are then necessary to arrive at our MDCH final report of expenditures which total \$14,787,844. The FY 2007 MDCH reportable expenditures compared to FY 2006 MDCH reportable expenditures of \$14,363,305 indicates an increase in expenditures of \$424,539 (a 3% increase). The overall increase was primarily attributable to an increase in personnel costs.

**Capital Outlay Expenditures:** FY 07 expenditures for Capital Outlay included an Agency wide voice over internet protocol (VOIP) phone system (\$174,705); and two (2) mini-van vehicles (\$37,491) to be used throughout the agency. Total capital outlay for FY 07 was \$212,196.

## **BUDGET VARIATIONS (Original to Final)**

Revenue and Expense Budgets were decreased by \$111,385 from the original to the final versions. The most significant decreases to Budgeted Revenues were to the State General Fund Authorization and the Adult Benefit Waiver revenue line items. The most significant decreases to Budgeted Expenses were to the "Contracted Services" line items.

## **CURRENTLY KNOW FACTS, DECISIONS, CONDITIONS**

The State of Michigan's level of funding for community mental health services remains uncertain for FY 2008 and beyond. The State continues to face a current year budget deficit. State General Funds were reduced in FY 2007 and there exists the possibility of another reduction this year in FY 2008. Adult Benefit Waiver enrollments and funding was also reduced in FY 2007 and the trend is continuing into FY 2008.

Recently enacted State Legislation (Section 460 of P.A. 154 of 2005), commonly referred to as "the administrative cost allocation initiative", set out a new set of reporting requirements for FY 2007. All Pre-paid Inpatient Health Plans (PIHP's) and Community Mental Health Services Programs (CMHSP's) are now required to submit to the State Department of Community Health (MDCH) a formal and detailed Cost Allocation Plan. The Cost Allocation Plan is to be consistent with the requirements and principles of the Federal OMB Circular A-87. This allocation model was developed for the specific purpose and limited scope of providing common definitions for consistent assignment of certain costs (primarily administrative costs), and for reporting the results to the State Legislature.

Van Buren Community Mental Health Services Program will report an "administrative cost" percent of 11.12% in its final Section 460 report for FY 2007. At this time, we do not have comparative data for other CMHSP's administrative percentages.

Phase II of Section 460 reporting is scheduled to begin in FY 2008 with the additional reporting requirements that all PIHP's and CMHSP's report the direct and administrative expenses of all "prime subcontractors" that are paid through the community mental health system.

# **BASIC FINANCIAL STATEMENTS - GOVERNMENT WIDE FINANCIAL STATEMENTS**



Van Buren Community Mental Health Authority  
Statement of Net Assets  
September 30, 2007 and 2006

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$2,850,170	\$3,038,376
Accounts receivable, net	70,720	56,778
Due from other governmental units	424,978	315,474
Prepaid items	164,119	101,122
Total current assets	3,509,987	3,511,750
Noncurrent assets		
Cash and cash equivalents - restricted	183,281	101,958
Investments - restricted	175,118	243,503
Capital assets - depreciable, net	338,190	224,998
Total noncurrent assets	696,589	570,459
Total assets	4,206,576	4,082,209
<b>Liabilities</b>		
Current liabilities		
Accounts payable	489,614	653,728
Accrued wages and other payroll liabilities	259,897	124,591
Due to other governmental units	399,055	420,504
Deferred revenue	121,654	111,610
Total current liabilities	1,270,220	1,310,433
Noncurrent liabilities		
Compensated absences	352,355	365,301
Total liabilities	1,622,575	1,675,734
<b>Net Assets</b>		
Invested in capital assets, net of related debt	338,190	224,998
Reserved for grant	188,261	328,829
Reserved for Medicaid savings	132,477	-
Unrestricted	1,925,073	1,852,648
Total net assets	\$2,584,001	\$2,406,475

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Activities  
For the year ended September 30, 2007, With Comparative Data

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2006
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$14,794,427</u>	<u>\$11,490,449</u>	<u>\$3,157,982</u>	(\$145,996)	\$120,061
General revenues					
Unrestricted investment earnings				157,003	103,551
Transfer in - Calhoun County CMH Authority				<u>124,408</u>	<u>-</u>
Change in net assets				135,415	223,612
Net assets, beginning of year				2,406,475	2,182,863
Prior period adjustment				<u>42,111</u>	<u>-</u>
Net assets, end of year				<u>\$2,584,001</u>	<u>\$2,406,475</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**



Van Buren Community Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2007, With Comparative Data

	<b>MAJOR FUNDS</b>			
	General Fund	New Outlook Fund	Total Governmental Funds	2006
<b>Assets</b>				
Cash and cash equivalents	\$2,661,091	\$189,079	\$2,850,170	\$3,038,376
Accounts receivable, net	70,720	-	70,720	56,778
Due from other governmental units	415,114	9,864	424,978	315,474
Prepaid items	164,119	-	164,119	101,122
Cash and cash equivalents - restricted	183,281	-	183,281	101,958
Investments - restricted	175,118	-	175,118	243,503
Total assets	<u>\$3,669,443</u>	<u>\$198,943</u>	<u>\$3,868,386</u>	<u>\$3,857,211</u>
<b>Liabilities</b>				
Accounts payable	\$484,491	\$5,123	\$489,614	\$653,728
Accrued wages and other payroll liabilities	254,338	5,559	259,897	124,591
Due to other governmental units	399,055	-	399,055	420,504
Deferred revenue	121,654	-	121,654	111,610
Total liabilities	<u>1,259,538</u>	<u>10,682</u>	<u>1,270,220</u>	<u>1,310,433</u>
<b>Fund balances</b>				
Reserved:				
Grant	-	188,261	188,261	328,829
Prepaid items	164,119	-	164,119	101,122
Compensated absences	327,315	-	327,315	339,341
Medicaid savings	132,477	-	132,477	-
Unreserved	1,785,994	-	1,785,994	1,777,486
Total fund balances	<u>2,409,905</u>	<u>188,261</u>	<u>2,598,166</u>	<u>2,546,778</u>
Total liabilities and fund balances	<u>\$3,669,443</u>	<u>\$198,943</u>	<u>\$3,868,386</u>	<u>\$3,857,211</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the year ended September 30, 2007

Total fund balance - governmental funds	\$2,598,166
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add: capital assets	1,506,320
Deduct: accumulated depreciation	(1,168,130)

Some liabilities are not due and payable in the current period and  
therefore are not reported in the funds. Those liabilities consist of:

Deduct: compensated absences	<u>(352,355)</u>
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Net assets of governmental activities	<u><u>\$2,584,001</u></u>
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See Accompanying Notes To Financial Statements



Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2007, With Comparative Data

	<b>MAJOR FUNDS</b>		Total Governmental Funds	2006
	General Fund	New Outlook Fund		
<b>Revenues</b>				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$1,907,282	\$175,536	\$2,082,818	\$2,195,677
Adult Benefit Waiver	246,267	-	246,267	276,862
Title XX	13,017	-	13,017	13,017
Total state grants	<u>2,166,566</u>	<u>175,536</u>	<u>2,342,102</u>	<u>2,485,556</u>
Federal grants	<u>352,713</u>	<u>-</u>	<u>352,713</u>	<u>350,001</u>
Contributions - local units				
County appropriations	<u>250,520</u>	<u>19,504</u>	<u>270,024</u>	<u>262,500</u>
Charges for services				
Medicaid - Venture contract	10,859,213	100,700	10,959,913	10,641,774
Medicaid - other	94,463	-	94,463	115,256
Client and third party pay	249,556	-	249,556	262,779
Other earned revenue	166,276	20,241	186,517	228,324
Total charges for services	<u>11,369,508</u>	<u>120,941</u>	<u>11,490,449</u>	<u>11,248,133</u>
Interest and rents				
Interest	<u>148,031</u>	<u>8,972</u>	<u>157,003</u>	<u>103,551</u>
Other revenue				
MTI income	151,839	-	151,839	131,098
United Way	31,000	-	31,000	31,000
Miscellaneous	10,304	-	10,304	11,465
Total other revenue	<u>193,143</u>	<u>-</u>	<u>193,143</u>	<u>173,563</u>
Total revenues	14,480,481	324,953	14,805,434	14,623,304

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2007 With Comparative Data

	<b>MAJOR FUNDS</b>		Total Governmental Funds	2006
	General Fund	New Outlook Fund		
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	\$7,690,102	\$344,083	\$8,034,185	\$7,429,776
Operating expenditures	6,612,519	61,665	6,674,184	6,838,297
Capital outlay	212,196	-	212,196	114,099
Total expenditures	14,514,817	405,748	14,920,565	14,382,172
Excess of revenues over expenditures	(34,336)	(80,795)	(115,131)	241,132
Other financing sources (uses)				
Operating transfers in (out)	59,773	(59,773)	-	-
Operating transfers in - Calhoun County CMH Authority	124,408	-	124,408	-
Excess of revenues and other sources Over expenditures and other uses	149,845	(140,568)	9,277	241,132
Fund balance, beginning of year	2,217,949	328,829	2,546,778	2,305,646
Prior period adjustment	42,111	-	42,111	-
Fund balance, end of year	<u>\$2,409,905</u>	<u>\$188,261</u>	<u>\$2,598,166</u>	<u>\$2,546,778</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
For the year ended September 30, 2007

Net change in fund balances - total governmental funds	\$9,277
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Add: capital outlay	212,196
Deduct: depreciation expense	(89,491)
Deduct: loss on disposal of capital assets	(9,513)

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in the funds.

Add: decrease in accrual for compensated absences	<u>12,946</u>
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Change in net assets of governmental activities	<u><u>\$135,415</u></u>
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See Accompanying Notes To Financial Statements

## **NOTES TO THE FINANCIAL STATEMENTS**



Van Buren Community Mental Health Authority  
Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Van Buren Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Van Buren County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues rather than as program revenues.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The Authority reports the following major governmental funds:

Governmental Funds

**General Fund** - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

**New Outlook Fund** - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Van Buren County.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Restricted Cash Equivalents and Investments**

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. These restricted assets are held in a separate account with a local financial institution.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and Van Buren County.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Computer Equipment	3 – 5
Office Equipment	5 – 10
Vehicles	7 – 10



Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in due to other governmental units.

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

**MDCH Revenue**

*General Fund Revenue*

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Van Buren County.

*Medicaid Revenue*

Also, the Board contracts to receive Medicaid revenue through Summit Pointe for Medicaid-qualified services rendered to residents of Van Buren County. Summit Pointe contracts with the MDCH to administer these Medicaid funds.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2007, the Authority incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup>, the carrying amount of the Authority's cash and cash equivalents are as follows:

	<b>2007</b>	<b>2006</b>
Petty cash	\$1,425	\$1,726
Cash deposits	1,859,609	2,062,358
Certificates of deposit	1,172,417	1,076,250
<b>Totals</b>	<b>\$3,033,451</b>	<b>\$3,140,334</b>

Van Buren Community Mental Health Authority  
Notes to Financial Statements

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2007, the carrying amount of the Authority's deposits was \$3,032,026, and the bank balance was \$3,330,429. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents – current assets	\$2,848,745	\$3,036,650
Cash and cash equivalents – restricted assets	183,281	101,958
<b>Totals</b>	<b>\$3,032,026</b>	<b>\$3,138,608</b>

**Investments**

As of September 30, 2007, the Authority had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturities</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
Federal Home Loan Banks Debenture	\$50,047	11/15/07	AAA	29%
Federal Home Loan Banks Debenture	50,032	11/02/10*	AAA	29%
Federal Home Loan Banks Debenture	50,031	2/22/08	AAA	28%
Fannie Mae Investment Note	25,008	11/23/11**	AAA	14%
Total fair value	\$175,118			100%

\*11/2/07 is the call date

\*\*11/23/07 is the call date

Van Buren Community Mental Health Authority  
Notes to Financial Statements

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	<b>2007</b>	<b>2006</b>
Calhoun County CMH Authority – Transfer of Medicaid Savings	\$124,408	-
Calhoun County CMH Authority – Other	2,000	-
Federal Grants Receivable	62,297	\$27,912
State of Michigan – Medicaid – Child Waiver	44,338	48,385
Van Buren County	135,000	202,476
Other Governmental Units	56,935	36,701
<b>Totals</b>	<b>\$424,978</b>	<b>\$315,474</b>

**Capital Assets**

A summary of changes in capital assets is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>ASSETS</b>				
Computer Equipment	\$438,564	-	-	\$438,564
Office Equipment	320,602	\$174,705	(\$129,339)	365,968
Vehicles	680,284	37,491	(15,987)	701,788
Sub-totals	1,439,450	212,196	(145,326)	1,506,320
<b>ACCUMULATED DEPRECIATION</b>				
Computer Equipment	(330,075)	(53,771)	-	(383,846)
Office Equipment	(303,631)	(13,131)	119,826	(196,936)
Vehicles	(580,746)	(22,589)	15,987	(587,348)
Sub-totals	(1,214,452)	(89,491)	135,813	(1,168,130)
<b>Totals</b>	<b>\$224,998</b>	<b>\$122,705</b>	<b>(\$9,513)</b>	<b>\$338,190</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2007</b>	<b>2006</b>
Department of Community Health	\$54,049	\$145,066
Calhoun County CMH Authority	316,400	275,438
Van Buren County	28,606	-
<b>Totals</b>	<b>\$399,055</b>	<b>\$420,504</b>

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

**Deferred Revenue**

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

**Long-Term Debt – Compensated Absences**

Authority policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used, upon termination of employment, or in accordance with a certain "payment in lieu of using discretionary hours" policy of the Authority. As of September 30, 2007 and 2006, compensated absences liability was \$352,355, and \$365,301, respectively.

**Operating Leases**

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2007 are as follows:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2008	\$140,933
2009	144,900
2010	-

### **Retirement System**

#### *Plan Description*

The employees of the Authority are eligible to participate in the Van Buren County Retirement Plans, which include a 457 Deferred Compensation Plan and a 401(a) Employee Thrift Plan. These plans are available to all employees hired to perform at least 900 hours of service per year.

#### *Funding Policy*

Employee deferrals to the 457 plan are allowed in accordance with Internal Revenue Code limitations. The Authority will match employee contributions up to a maximum of 6% of wages for union employees and 8% for non-union employees. Employer contributions will be made to the 401(a) plan.

Employee contributions are fully vested at all times. Employer contribution's for each employee becomes fully vested after 4 years of employment with the Authority.

For the September 30, 2007 fiscal year, employer contributions to the plan totaled \$230,691 and employee contributions totaled \$356,797. The total payroll for the year ending September 30, 2007 was \$5,883,590.

### **Alternative Social Security Plan**

#### *Plan Description*

Effective January 1, 2000, certain employees of the Authority participate in a tax qualified retirement plan in lieu of the Social Security Retirement System. Employees of the Authority who work at least 30 hours per week are eligible to participate in the plan. If eligible, the employee must elect to participate in the plan.

Van Buren Community Mental Health Authority  
Notes to Financial Statements

*Funding Policy*

Employee contributions to this plan are at the rate of 6.2% of gross wages, with an equal amount contributed by the employer. The employee / employer contribution rates are the same as if participating in the Social Security Retirement System. Under this plan, all contributions are immediately vested with the employee. Employees who do not participate in this plan are required to participate in the Social Security Retirement System.

**Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

**Risk Management - Michigan Municipal Risk Management Authority**

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

MMRMA coverage limits are between \$2,000 and \$15,000,000 for liability, and between \$10,000 and \$300,000,000 for property and crime.

The contribution made by the Authority to the MMRMA was \$110,122 for the period July 1, 2007 to July 1, 2008.

Settled claims, if any, for the MMRMA have not exceeded the amount of coverage in any of the past three years and there was no reduction in coverage during the past year.



Van Buren Community Mental Health Authority  
Notes to Financial Statements

**Prior Period Adjustment**

The following transactions were recognized in these financial statements as prior period adjustments:

<b>Description</b>	<b>2007</b>	<b>2006</b>
Adjustments to prior year inpatient liabilities	\$42,111	-

Van Buren Community Mental Health Authority  
Notes to Financial Statements

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## **REQUIRED SUPPLEMENTAL INFORMATION**



Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
General Fund  
For the year ended September 30, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$2,301,977	\$2,147,394	\$1,907,282	(\$240,112)
Adult Benefit Waiver	311,586	306,659	246,267	(60,392)
Title XX	13,017	13,017	13,017	-
Total state grants	<u>2,626,580</u>	<u>2,467,070</u>	<u>2,166,566</u>	<u>(300,504)</u>
Federal grants	<u>383,089</u>	<u>373,783</u>	<u>352,713</u>	<u>(21,070)</u>
Contributions - local units				
County appropriations	<u>270,000</u>	<u>270,000</u>	<u>250,520</u>	<u>(19,480)</u>
Charges for services				
Medicaid - Venture contract	10,858,685	10,922,885	10,859,213	(63,672)
Medicaid - other	112,500	112,500	94,463	(18,037)
Client and third party pay	244,500	244,500	249,556	5,056
Other earned revenue	68,325	91,325	166,276	74,951
Total charges for services	<u>11,284,010</u>	<u>11,371,210</u>	<u>11,369,508</u>	<u>(1,702)</u>
Interest and rents				
Interest	<u>48,540</u>	<u>52,665</u>	<u>148,031</u>	<u>95,366</u>
Other revenue				
MTI income	65,000	95,000	151,839	56,839
United Way	31,000	31,000	31,000	-
Miscellaneous	31,166	31,472	10,304	(21,168)
Total other revenue	<u>127,166</u>	<u>157,472</u>	<u>193,143</u>	<u>35,671</u>
Total revenues	14,739,385	14,692,200	14,480,481	(211,719)

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
General Fund  
For the year ended September 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	\$7,858,795	\$7,861,981	\$7,690,102	\$171,879
Operating expenditures	6,780,590	6,730,219	6,612,519	117,700
Capital outlay	100,000	100,000	212,196	(112,196)
	<u>14,739,385</u>	<u>14,692,200</u>	<u>14,514,817</u>	<u>177,383</u>
Excess of revenues over expenditures	-	-	(34,336)	(34,336)
Other financing sources (uses)				
Operating transfers in	-	-	59,773	59,773
Operating transfers in - Calhoun County CMH Authority	<u>-</u>	<u>-</u>	<u>124,408</u>	<u>124,408</u>
Excess of revenues and other sources over expenditures and other uses	-	-	149,845	149,845
Fund balance, beginning of year	2,217,949	2,217,949	2,217,949	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>42,111</u>	<u>42,111</u>
Fund balance, end of year	<u>\$2,217,949</u>	<u>\$2,217,949</u>	<u>\$2,409,905</u>	<u>\$191,956</u>

See Accompanying Notes To Financial Statements

Van Buren Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
New Outlook Fund  
For the year ended September 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	<u>-</u>	<u>\$200,000</u>	<u>\$175,536</u>	<u>(\$24,464)</u>
Contributions - local units				
County appropriations	<u>-</u>	<u>20,000</u>	<u>19,504</u>	<u>(496)</u>
Charges for services				
Medicaid - Venture contract	\$200,000	135,800	100,700	(35,100)
Other earned revenue	350,000	120,000	20,241	(99,759)
Total charges for services	<u>550,000</u>	<u>255,800</u>	<u>120,941</u>	<u>(134,859)</u>
Interest and rents				
Interest	<u>-</u>	<u>10,000</u>	<u>8,972</u>	<u>(1,028)</u>
Total revenues	550,000	485,800	324,953	(160,847)
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Personnel costs	400,063	400,063	344,083	55,980
Operating expenditures	<u>149,937</u>	<u>85,737</u>	<u>61,665</u>	<u>24,072</u>
Total expenditures	<u>550,000</u>	<u>485,800</u>	<u>405,748</u>	<u>80,052</u>
Excess of revenues over (under) expenditures	-	-	(80,795)	(80,795)
Other financing sources (uses)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(59,773)</u>	<u>(59,773)</u>
Excess of revenues and other sources over expenditures and other uses	-	-	(140,568)	(140,568)
Fund balance, beginning of year	<u>328,829</u>	<u>328,829</u>	<u>328,829</u>	<u>-</u>
Fund balance, end of year	<u>\$328,829</u>	<u>\$328,829</u>	<u>\$188,261</u>	<u>(\$140,568)</u>

See Accompanying Notes To Financial Statements

## OTHER SUPPLEMENTAL INFORMATION



Van Buren Community Mental Health Authority  
Supporting Schedule of Personnel Costs  
For the years ended September 30, 2007 and 2006

	<u>General Fund</u>	
	<u>2007</u>	<u>2006</u>
<b>Personnel Costs</b>		
Salaries and wages	\$5,640,074	\$5,163,936
Fringe benefits	<u>2,050,028</u>	<u>1,905,711</u>
Total personnel costs	<u><u>\$7,690,102</u></u>	<u><u>\$7,069,647</u></u>

See Accompanying Notes To Financial Statements



Van Buren Community Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For the years ended September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Operating Expenditures</b>		
Communications	\$110,118	\$140,945
Contractual services	4,928,032	5,011,776
Insurance	96,403	100,324
Local funds contribution	218,296	218,294
Other	38,666	40,509
Rents and utilities	452,363	437,048
Repairs and maintenance	91,751	113,337
Supplies	257,781	265,721
Transportation	207,771	250,000
Travel and conferences	211,338	183,323
	<u>211,338</u>	<u>183,323</u>
Total operating expenditures	<u>\$6,612,519</u>	<u>\$6,761,277</u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Van Buren Community Mental Health Authority  
Caro, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Van Buren Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood

that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 24, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 24, 2008

## **Van Buren Community Mental Health Authority Schedule of Findings and Responses**

### Finding 2007-1

#### Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

#### Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



## MANAGEMENT LETTER

Board of Directors  
Van Buren Community Mental Health Authority  
Paw Paw, Michigan

In planning and performing our audit of the financial statements for Van Buren Community Mental Health Authority for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 24, 2008, the financial statements of Van Buren Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Co, PC'.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 24, 2008

## **STATUS OF PRIOR YEAR RECOMMENDATIONS**

During the audit we were pleased to note that all of the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **Independent Review for Reimbursements**

During our audit we noted that payments to the “Drop-In-Center” and “Cohesion” are based on activity recorded in these entities self prepared check registers.

We recommend management of the Authority perform an independent review of the expenses noted in the check registers, comparing those expenses to invoices and / or actual checks. This process will help to ensure that proper amounts are paid and all payments are valid expenses for which a reimbursement can be issued.

### **Physical Inventories of Capital Assets**

The Office of Management and Budget (OMB) Circular A–87, “Cost Principles for State, Local, and Indian Tribal Governments,” establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

The *Depreciation and Use Allowance* section of the Circular states that physical inventories must be taken at least once every two years to ensure that assets exist and are in use (Appendix B, Section 11 h).

We recommend management conduct a physical inventory of their capital assets, at least once every two years, to ensure that only active, in-service capital assets are included on the Authority’s financial statements. This will ensure that capital assets are properly stated and that depreciation is being calculated from a reliable listing. Such physical counts will also help detect the loss or unauthorized use of valuable property.